

# **Report of the auditor-general to the Eastern Cape provincial legislature and the council on Baviaans Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Baviaans Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Baviaans Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

8. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 30 June 2015.

## **Events after reporting date**

9. As disclosed in note 37 in the financial statements, the boundaries of Baviaans Local Municipality, Ikwezi Local Municipality and Camdeboo Local Municipality have been redefined. The three municipalities will be amalgamating after the local government elections. The official date of the amalgamation has not been published in the government gazette and the financial implications for Baviaans Local Municipality cannot be reliably estimated.

## **Material losses**

10. As disclosed in note 44 to the financial statements, the municipality incurred distribution losses relating to water of 24% (2014: 21%) and relating to electricity of 9,5% (2014: 11,8%). The percentage disclosed for material losses is above the acceptable range.

## **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary information**

12. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

## **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development priority: Infrastructure development on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify material findings on the usefulness and reliability of the reported performance information for the following development priority:
- Development priority: Infrastructure development

### **Additional matters**

20. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priority, I draw attention to the following matters:

### **Achievement of planned targets**

21. Refer to the annual performance report on page x to x for information on the achievement of the planned targets for the year.



## Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for infrastructure development. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Financial statements, performance and annual reports**

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. One material misstatement of a disclosure item identified by the auditors in the submitted financial statements was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure management**

25. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
26. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Procurement and contract management**

27. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

## **Internal control**

28. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

## Leadership

29. Leadership has been effective in the establishment of a performance driven culture, oversight of management and HR management. Required policies and procedures were in place and action plans implemented during the year were effective.

## Financial and performance management

30. Management has implemented adequate record keeping. Daily and monthly processing and reconciliation of transactions has occurred, with the exception of commitments and irregular expenditure.

## Governance

31. Risk management activities are adequately implemented. The audit committee is effective and fully supported by council and management. Internal audit had limited impact during the financial year due to budgetary constraints.

*Auditor-General*

East London

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*